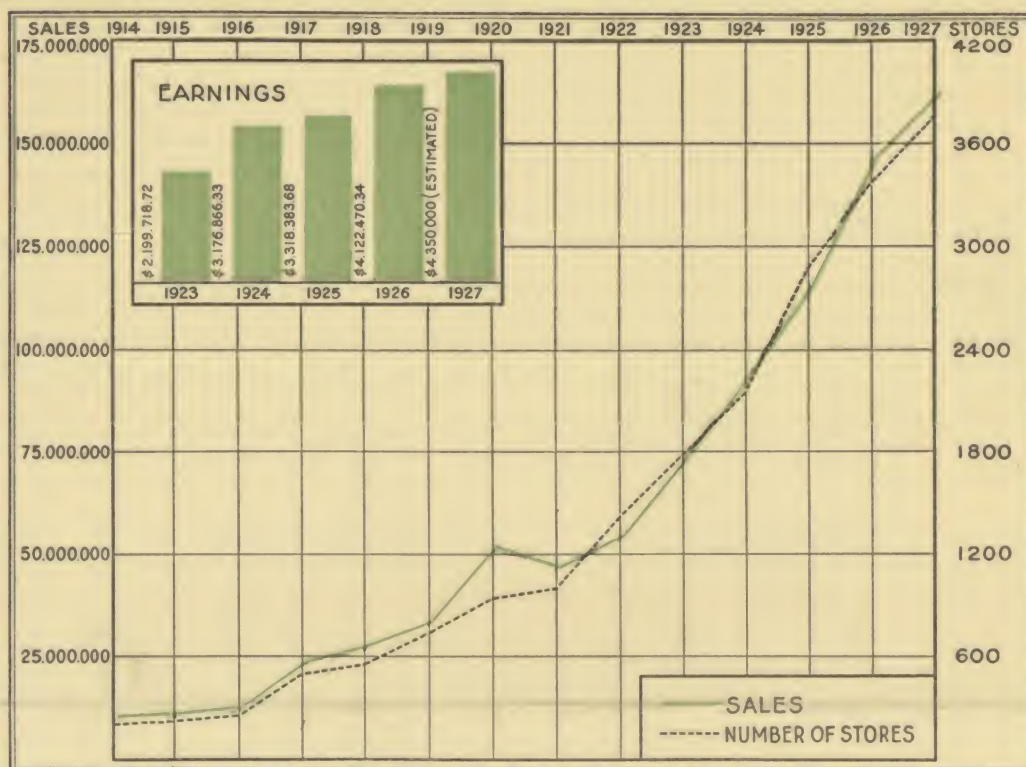


An Analysis of The Kroger Grocery & Baking Company and its Common Stock

COMPARISON OF NUMBER OF STORES, SALES AND EARNINGS



The number of Kroger stores (3,764) has increased over 90 fold since 1902. Expansion in sales has also been rapid, the volume in 1927 (\$161,299,604) having been over 110 times the total for 1900. With only two exceptions, sales in each of the past 35 years have been greater than in any preceding year.

Lansburgh Brothers

Established 1869

Members New York Stock Exchange

30 Broad Street

New York

The Kroger Grocery & Baking Company

BUSINESS

The Company operates, in the Middle West, a chain of 3,764 grocery stores, in conjunction with 1,675 of which there are meat departments. This is the second largest chain of its kind in the country, and, in volume of sales, the third largest chain system, being exceeded in this respect only by the Great Atlantic & Pacific and the Woolworth chains.

The business was founded in Cincinnati in 1882 by B. H. Kroger, and has since experienced an almost uninterrupted growth, furnishing a remarkable example of the modern trend toward merchandising through chains of stores. The Kroger stores are in a comparatively compact territory in the States of Ohio, Kentucky, Indiana, Missouri, Michigan, Illinois, West Virginia and Pennsylvania.

The Company's chief growth has come through the opening of its own units in a gradually expanding territory, a policy which is still being vigorously pursued. Other chains of stores, however, have from time to time been taken over. Two organizations with headquarters in Cincinnati were acquired in 1908, one with forty stores and the other with fifteen stores. Recent important acquisitions were forty-eight stores operating in and about Toledo, and seventy stores with headquarters in Indianapolis.

The Company was the first grocery chain to bake bread. The savings in cost and distribution were so large that this has become an important feature of the business, with a production of over 125,000,000 loaves of bread in 1927. Baking activities have since been extended to include many varieties of cakes and crackers. The Company also pioneered in the opening of meat departments in conjunction with its grocery stores, and is unique in that it operates its own packing house, as well as a sausage making plant. About 12,400 people are employed in all.

All of the stores carry produce and fruits throughout the year.

Although most nationally advertised brands of food-stuffs are handled in the Kroger stores, the Company has established a reputation for quality in its own "Country Club" brand, which is used on approximately 100 items. This trade name is known for excellence throughout the Middle West. In many items, the sale of the "Country Club" brand is more than half the total sale of the item, including all brands.

The Company operates bread bakeries and cake bakeries in seven cities. In four of the latter, crackers also are made. A meat packing plant is located in Cincinnati and a sausage plant in Detroit. It also has four coffee roasting plants, and a general manufacturing plant for packaging candies, spices, teas, coffees, extracts, etc. These activities, on account of the volume of business done, have not only proven profitable, but have made it possible to pass on to the public part of the saving in costs on articles of assured quality and freshness.

Plants are constantly being improved and modernized. Many of the units are comparatively new in their entirety. The newest is in Cleveland, where a scientifically planned plant of large proportions was opened early in December, 1927. This includes grocery warehouse, bakery for bread and cake, coffee-roasting plant, produce department and garage.

Early this month the Company purchased the plant of The Ohio Packing Company at Columbus, Ohio, having a capacity of 1,800 hogs and 200 cattle per week, and a curing capacity of 800,000 pounds. It is under United States Government inspection and will be used to supply the meat departments of the Company in Columbus and surrounding territories.

OPERATIONS

In the last six years the number of stores operated has multiplied over three and three-quarters times through the opening of an average of 460 stores per year. In spite of the rapidity of this expansion, it has been accomplished in an orderly manner and without disturbing the normal functioning of the business as a whole. This is evidenced by an analysis of operating results, which shows that the percentages of gross profit,

expenses, and net profit to sales have been remarkably constant throughout the entire period.

Sales are for cash only, nothing being sold on credit. No deliveries are made.

One of the principal operating factors in the success of the Company is the rapid turnover of stock in every department. The freshest possible foodstuffs are sent to the stores in such quantities as will sell within a definite time appropriate for each item.

ORGANIZATION

The Kroger organization is recognized in the trade as one of the strongest and most complete. The various activities of the business are well distributed among expert and responsible department heads. The territory and stores are divided among nine major branches, each managed by a branch head, with two assistants, several assistant-superintendents, and supervisors.

In each of the nine branch centers the Company has a large warehouse into which merchandise is shipped in carload lots, whence it is distributed by motor truck to the retail stores. The branches are located at Detroit,

St. Louis, Cincinnati, Columbus, Dayton, Toledo, Indianapolis, Cleveland and Peoria. Subsidiary warehouses are also maintained at Grand Rapids, Youngstown and Charleston.

Over 4,500 employees, including a majority of the store managers, and substantially all of the important executives, own stock in the Company. The management has recognized the need of developing an ownership interest on the part of the principal employees, and has encouraged this by offers of Common Stock on liberal terms.

CAPITALIZATION

	Authorized	To be presently Outstanding
Preferred Stock (Par Value \$100 Per Share)	\$146,700	\$146,700
Common Stock (No Par Value)	2,000,000 shs.	* 1,050,423.3 shs.

* NOTE: The Company is under contract to sell an additional 66,804 shares to employees.

ASSETS

The certified balance sheet of The Kroger Grocery & Baking Company, as at October 29, 1927, giving effect as at that date to the change in capitalization, shows net tangible assets applicable to the Common Stock of \$17,101,912.63. Current assets of \$14,679,605.44 compared to current liabilities of \$5,670,403.04, a ratio of over 2½ to 1. Net current assets amounted to \$9,009,202.40.

The Company owns buildings in seven cities, which are used as branch offices, warehouses, bakeries, garages, packing house, factory, and produce departments. Actual value of the real property has enhanced to far in excess of the book figure, which is at cost less depreciation. The other buildings occupied and all of the stores are leased.

EARNINGS

Net profits from operations of The Kroger Grocery & Baking Company, after all charges, including adequate provisions for depreciation and Federal taxes,

and after deducting dividend requirements on preferred stocks now outstanding, have been as follows:

Years ended December 31	Net Profits as above
1923	\$2,199,718.72
1924	3,176,866.33
1925	3,318,383.68
1926	4,122,470.34

Net profits for the first ten months of 1927 were in excess of those for the corresponding period of 1926. Shortly before the close of 1927, net earnings for the full year were estimated by W. H. Albers, First Vice-President and Manager, at \$4,350,000.

It should be borne in mind that during the above mentioned years the Company has opened a large num-

ber of stores in each year, and that these new stores do not ordinarily begin to reflect their normal earning power until a year or more after their opening.

Net earnings have increased 30 fold since 1909, when they were \$134,580. In the past nine years, which include the deflation period of 1920-21, net earnings in each year were in excess of the preceding year.

DIVIDENDS

The Company has paid cash dividends on its Common Stock in each year since its incorporation in 1902. In each of the years 1925, 1926 and 1927 cash dividends amounted to \$2.00 per share on the \$10 par stock which has been exchanged for two shares of no par stock; and in addition 5% in stock was paid in 1926 and again in 1927.

The Company has just declared an initial quarterly

cash dividend of 25 cents per share on the no par stock, payable March 1, 1928, to stock of record February 10, 1928. It has also declared a stock dividend of 5% payable April 2, 1928, to stock of record March 10, 1928. This stock dividend, if sold at about current prices, plus the annual cash dividend would give the investor a return of about 6.32%.

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Although during each of the past two years The Kroger Grocery & Baking Company has followed its present policy of paying stock dividends in addition to cash dividends, in each year the average of the high and low prices for the year has been higher than the year

previous. The table below shows the amount of stock outstanding as of December 31 in each year, the high and low price, the average of the high and low price and the amount of the cash and stock dividend.

Year	Shares Outstanding* December 31	—Dividends—		—Price Range—		
		Cash	Stock	High	Low	Average
1924.....	476,386 2/3	\$1.50		76 3/4	35 1/4	56
1925.....	476,387	2.00		141 1/4	72 3/4	107
1926.....	500,204 1/10	2.00	5%	135 1/4	105	120 1/8
1927 (Oct. 29).....	525,211 13/20	2.00	5%	145 1/4	118	131 1/8

* \$10 par stock which has been exchanged for 2 shares of no par stock.

This stock dividend increases the amount of stock by 5% whereas the number of stores during the past five years has shown an average rate of increase of 20% per year.

COMPARISON OF CURRENT RETURN

	Market Price	—Present Dividend Rate—			Current Return
		Cash	Stock	Total	
THE KROGER GROCERY & BAKING COMPANY.....	76	\$1.00	5%	\$4.80*	6.32%
Great Atlantic & Pacific Tea Co.	240	3.00		3.00	1.25%
S. H. Kress & Co.	99	1.00	†.50	1.50	1.51%
S. S. Kresge Company.....	72	1.20	‡	1.20	1.66%
McCrory Stores Corporation	85	1.60	§	1.60	1.88%
F. W. Woolworth & Co.	187	5.00	¶	5.00	2.67%

* Cash dividend plus value of stock dividend if sold at present market.

† In special preferred stock (1927).

‡ Paid 33 1/3% stock dividend in 1923 and 50% in 1925 on old \$100 par stock.

§ Paid 1% in 1926.

¶ Paid 50% in 1927.

COMPARISON OF EARNINGS AND MARKET PRICE

The Kroger Grocery & Baking Company percentage earned on market price compares favorably with other chain store stocks that have an active listed market, as can be noted in the table below:

	Share Earnings		Market Price	Percent Earned on Market Price	
	1926	1927*		1926	1927
THE KROGER GROCERY & BAKING COMPANY.....	\$3.92	\$4.15	76	5.1%	5.5%
Great Atlantic & Pacific Tea Co.	**	**	240
S. H. Kress & Co.	4.66	5.50	99	4.7%	5.5%
S. S. Kresge Company	3.36	3.95	72	4.7%	5.5%
McCrory Stores Corporation	4.15	4.85	85	4.9%	5.7%
F. W. Woolworth & Co.	7.24	9.06	187	3.9%	4.8%

* Estimated.

** Not reported.

PROSPECTS

Chain stores, supplemented by certain manufacturing activities, have proven in theory and in practice to be the most economical method of food distribution. The volume of sales of chain grocery stores reporting to the Federal Reserve System has shown an increase of over 275% since 1919, whereas wholesale grocery sales, similarly reported have decreased 19% during the same

period. The volume of sales of the chain organizations is already an important proportion of the total retail sales of foodstuffs, but there remains considerable opportunity for expansion through the opening of additional units, as well as for increased efficiency through the consolidation of chains.

January 24, 1928.

The statements contained in this analysis are not guaranteed, but are based on information which we believe to be correct.